

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN UTILITIES, INC.

FOR:

- | | | |
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| 1. ORDER AUTHORIZING A RATE INCREASE |) | |
| 2. INTERIM ORDER TO IMMEDIATELY IMPLEMENT |) | |
| ITS PROPOSED RATES ON AN EMERGENCY BASIS |) | |
| PURSUANT TO KRS 278.190 |) | |
| 3. ORDER APPROVING BORROWING \$162,000 FROM |) | CASE NO. |
| THE COMMONWEALTH OF KENTUCKY, DEPARTMENT |) | 9546 |
| OF LOCAL GOVERNMENT |) | |
| 4. ORDER AUTHORIZING A CERTIFICATE OF |) | |
| CONVENIENCE AND NECESSITY TO RECONSTRUCT |) | |
| THE TOM'S CREEK AREA OF THE SYSTEM |) | |

O R D E R

On October 30, 1986, the Commission issued an Order in this proceeding wherein it granted Mountain Utilities, Inc., ("Mountain") additional revenues of \$34,710, approved the financing arrangements, and granted a certificate of public convenience and necessity. On November 19, 1986, Mountain filed for rehearing on the following issues: 1) Pratt Judgment; 2) the two bank loans; 3) transportation expense; 4) insurance expense; 5) franchise tax expense; 6) customer deposits; 7) reference to imprudent management; and 8) uses of the margin above operating costs and interest payments.

Per the Order dated December 9, 1986, the Commission granted rehearing on the Pratt Judgment, the bank loans, and the reference to imprudent management. A rehearing was held on February 13, 1987, at the offices of the Public Service Commission in Frankfort, Kentucky.

Following are the Commission's findings regarding the allowed rehearing issues:

Pratt Judgment

Mountain requested in its petition for rehearing an Order reversing the finding in Case No. 8425¹ and the findings in the Order dated October 30, 1986, in this proceeding, that the stockholders are in any way liable to the company for the repayment of the Pratt Judgment. In addition, Mountain requested that the imputed interest income resulting from the Pratt Judgment payments be eliminated for rate-making purposes because it was arbitrarily calculated by the Commission.

The Commission is still of the opinion that unusual and non-recurring items should not be borne by the ratepayers. The Pratt Judgment payment is the result of unforeseeable and extraordinary circumstances which should properly be reflected in the long-range risk expectations of the utility. Therefore, the Commission continues to be of the opinion that the ratepayers shall not be held responsible for the Pratt Judgment.

Steve Allen, President of Mountain, stated at the rehearing that there is no acceptable treatment of the imputed interest.² Since Mountain did not provide any other means of calculating the impact of the Pratt Judgment, the Commission remains of the opinion that, for rate-making purposes only, the imputed

¹ Case No. 8425, Application of Mountain Utilities, Inc., for a Rate Increase and Authority to Borrow Certain Amounts to Apply on Its Current Indebtedness, Final Order entered July 6, 1982.

² Transcript of the February 13, 1987, Rehearing, page 40.

receivable on which interest is accruing is due the ratepayers from Mountain.

Interest Expense on Bank Loans

During September, 1985, Mountain borrowed \$52,000 from two local banks to apply towards the arrearage to Kentucky-West Virginia Gas Company ("Kentucky-West"). In its Order dated October 30, 1986, the Commission did not include the interest expense on the bank loans in the revenue requirements determination. Mountain stated in its petition for rehearing that "the delinquencies in gas purchases are a direct result of paying the Pratt Judgment".³ The Commission continues to be of the opinion that the interest expense on the borrowings should not be included in revenue requirements since the proceeds were used to pay prior period operating expenses which became delinquent because of payment of the Pratt Judgment.

Reference to Imprudent Management

The Commission stated in the Order dated October 30, 1986, that it will not have the customers pay again and again for delinquencies arising from imprudent management.⁴ Mountain stated in its Petition for Rehearing that the reference to imprudent management is without merit. It is the Commission's opinion that based upon the facts of the case, the reference to imprudent management should be stricken from the October 30, 1986, Order.

³ Mountain's Petition for Rehearing, filed November 16, 1986, page 3, Item 2.

⁴ Commission's Order dated October 30, 1986, page 14.

Customer Deposits

In its petition for rehearing, Mountain requested that Ordering Paragraph No. 7 of the Final Order be eliminated. In the Order granting Mountain rehearing, the Commission amended Paragraph No. 7 to order Mountain to notify its customers that residential deposits retained for more than 18 months will be recalculated based on actual usage upon the customer's request. On January 21, 1987, Mountain filed a copy of a notice of deposit recalculation which appeared in the Paintsville Herald on January 7, 1987. This notification complies with the requirement of Amended Paragraph No. 7.

In the Order granting Mountain rehearing, the Commission also amended Ordering Paragraph No. 8 in the Final Order requiring Mountain to immediately begin to pay or credit interest annually on customer deposits. Mountain has requested this paragraph be further amended to conform to Commonwealth vs. Kentucky Power and Light Co., 257 KY 66, 77SW(2nd) 395 (1934), which states in part, "Providing demand is made by the customer. . . ." Mountain has stated it will pay, or credit interest annually, if requested to do so by the customer.

In granting Mountain rehearing, the Commission amended Ordering Paragraph No. 9 in the Final Order to order Mountain to identify and locate all customers who have received deposit refunds and remit to those customers the applicable interest accrued. Mountain has stated that customers who have received deposit refunds were in fact paid interest, and that when a final

bill is issued and paid in full, the customer's deposit with interest is applied against the balance.

Reconnection Fees

Ordering Paragraph No. 11 of the Final Order required Mountain to file a plan with the Commission to refund the overcharges to customers who paid an unapproved reconnection fee. Mountain has stated that a list of customers overcharged was being reconstructed and that these customers were credited the overcharge in the February billing.

FINDINGS

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates approved in the Commission's Order dated October 30, 1986, should remain in effect.

2. The reference to imprudent management per the Commission's Order dated October 30, 1986, should be stricken from the Order.

3. The allowed rehearing issues consisting of the treatment of the Pratt Judgment and the interest expense on the bank loans should be denied.

4. Mountain has notified its customers that residential deposits retained for more than 18 months will be recalculated based on actual usage upon the customer's request. Therefore, Amended Ordering Paragraph No. 7 in the Final Order should be deleted.

5. The Amended Ordering Paragraph No. 8 in the Final Order should be further amended to conform to Commonwealth vs. Kentucky Power and Light Co., 257 KY 66, 77SW(2nd) 395(1934).

6. Mountain's customers who have received deposit refunds have been paid interest for the period the deposits were held. Therefore, Amended Ordering Paragraph No. 9 in the Final Order should be deleted.

7. Mountain should file with the Commission a list of the customers who were charged the unapproved reconnection fee with documentation showing that the credit was applied to each in the February 1987 billing.

IT IS THEREFORE ORDERED that:

1. The rates approved in the Commission's Order dated October 30, 1986, shall hereby remain in effect.

2. The reference to imprudent management per the Commission's Order dated October 30, 1986, is hereby stricken from the Order.

3. The allowed rehearing issues consisting of the treatment of the Pratt Judgment and the interest expense on the bank loans are hereby denied.

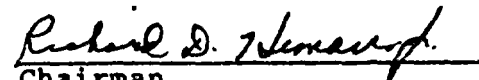
4. Amended Ordering Paragraphs Nos. 7 and 9 in the Final Order shall be and hereby are deleted.

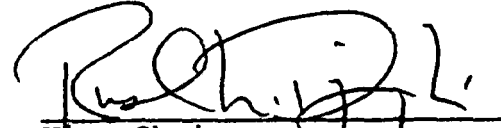
5. Amended Ordering Paragraph No. 8 in the Final Order is further amended to state: "Providing demand is made by the customer for such payment or credit. In the absence of such demand, the interest shall continue to run though Mountain may voluntarily so pay or credit if it wishes."

6. Within 30 days of the date of this Order, Mountain shall refile with the Commission a list of the customers who were charged the unapproved reconnection fee with documentation showing that the credit was applied to each in the February 1987 billing.

Done at Frankfort, Kentucky, this 20th day of May, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director